



# INTERNAL AUDIT CONTROLS EVALUATION BILLINGS AND COLLECTIONS

June 2, 2003

Roanoke City Council Audit Committee  
Roanoke, Virginia

We have completed our audit of the City-Wide Billing System. Our audit was performed in accordance with generally accepted government auditing standards.

## **BACKGROUND**

The City-Wide Billing System was developed internally by the Department of Technology and the Department of Billings and Collections and went into service in 1994. The purpose of the system was to provide a centrally managed system for billing services, permits, and certain fees for which departments typically billed citizens and businesses. Typical services billed through this system include weed abatement, demolitions, refuse collection, and past due amounts for EMS services. The City-Wide Billing System was also designed to interface with the Treasurer's revenue collection system and the Department of Finance's general ledger system, automating the entire miscellaneous billing and receivables process.

The City-Wide Billing System is administered by the Department of Billings and Collections which reports to the Director of Finance. As system administrator, The Department of Billings and Collections establishes users on the system as requested, manages the security tables that control user access to accounts, and serves as user support. The Department of Billings and Collections runs the required computer jobs to maintain the system, produce reports, transfer data between systems, etc. The Department of Billings and Collections is responsible for ensuring that data transferred between the revenue collection, city-wide billing, and the general ledger systems is accurate and complete. It also prints and mails the invoices, monitors past due accounts, performs additional collection efforts such as past due notices, phone contacts, and filing debt set-offs. The Department of Billings and Collections is also responsible for maintaining a healthy accounts receivable system through proper write offs and adjustments, as justified based on individual circumstances of accounts and requests from user departments.

City departments are directed to use city-wide billing in administrative procedure 3.8 "Miscellaneous Billings and Accounts Receivable". User departments are responsible for establishing customer accounts, inputting original demographic information, the description of the services being billed, the amount to be invoiced, and any additional information needed on the invoice. They are also responsible for providing the

Department of Billings and Collections with any necessary attachments to invoices and for maintaining the documentation supporting their invoices. User departments can use the City-Wide Billing System to view their billing activity by customer or invoice type. They can also request various printed reports from the Department of Billings and Collections detailing account and invoice activity. Once billed through city-wide billing, user departments are not responsible for collecting money or for following up on past due accounts.

In the fiscal year 2003 City budget, the Department of Billings and Collections anticipated there would be \$17.5 million billed through the City-Wide Billing System. In addition to billing services and fees through the City-Wide Billing System, the Department of Billings and Collections also bills lease agreements through the system.

City-wide billing invoices are designed to direct customer payments to the City Treasurer's office. The remittance stubs state that checks are to be made payable to the Treasurer, City of Roanoke, and includes the mailing address for the City Treasurer's office. The City Treasurer processes payments through the revenue collection system. The payment data is electronically transferred into the City-Wide Billing System each night.

### **PURPOSE**

The purpose of this audit was to evaluate the overall design and operation of the system of internal controls related to the City-Wide Billing System. Specifically, we wanted to determine if:

- City services and fees billed through city-wide billing are invoiced timely and related collection efforts are applied in a diligent and uniform manner.
- Payments received for services and fees billed through city-wide billing are deposited and credited to the proper accounts.
- Voids, adjustments, and write-offs applied to accounts on city-wide billing are in accordance with city policy and city code.
- Past due accounts on city-wide billing are assessed penalties and interest in accordance with city policy and city code.

### **SCOPE**

Our audit focused on the system of internal controls in place as of December 1, 2002. We tested transactions occurring between July 1, 2002 and January 31, 2003.

### **METHODOLOGY**

We gained an understanding of the processes involved in city-wide billing by reviewing city code, city administrative procedures, policy and procedures manuals and other documentation available in the Department of Billings and Collections. We also interviewed personnel in the Department of Billings and Collections and in user departments to gain an understanding of the procedures followed when using the City-Wide Billing System. We documented our understanding using process outlines and

process narratives. Based on our understanding of the processes, we identified significant risks associated with the process and the related controls designed to address those risks. We then designed test work to determine if controls were operating as designed and were effective in addressing the associated risks.

In our testing, we reviewed the security tables listing all persons who have access to the City-Wide Billing System. We recalculated penalties and interest assessed on a judgmentally selected sample of overdue accounts to verify compliance with city code. We used interval sampling to select “adjustment” and “credit memo” transactions which we then evaluated for propriety and consistent treatment. We tested a sample of business accounts under the deferred payment program to determine if their accounts were current and were within their established credit limits. We used interval sampling to verify payments posted by the Treasurer were properly posted into the City-Wide Billing System and through to the City’s accounting system. We also evaluated the utility of reports available on the City-Wide Billing System and the average costs of billing a service or fee through city-wide billing.

## **RESULTS**

We found that the City-Wide Billing System is a good centralized system that provides better controls and more professional billing services than could be achieved by individual departments. The responsibilities for providing services, billing for services, and processing payments are each assigned to different departments. This prevents one department from controlling the entire process and provides the necessary checks and balances to ensure payments are properly deposited and accounted for. The ability to adjust and write-off accounts is limited to a very few people under the supervision of the Manager of Billings and Collections. Reports and forms developed for administering the system provide greater central control over all activity related to miscellaneous billings and receivables. Also, the invoice used in city-wide billing is well designed, professional in appearance, and provides clear instructions to the customer about payment options. These features contribute to a billing and collection process that is well controlled.

During the course of the audit, we noted the following control concern related to system administration. Other, less significant issues were conveyed to management through discussion during the audit and by memo.

### **Finding 01 – System Security**

We reviewed the user security tables and identified two users with system access inconsistent with their job responsibilities. One user is an administrative secretary with the ability to update billed invoices and view customer bank information. The other user is an employee in the Department of Technology with full edit/update capabilities who was involved in the original development of the system, but who has no current job responsibilities related to city-wide billing.

Additionally, there were seven employees in the Department of Technology who had read-only access to city-wide billing that have no responsibilities related to miscellaneous billings or the system.

There is an increased risk that users could effect unauthorized and inappropriate adjustments and that sensitive data such as bank records or names of children in juvenile facilities could be seen by persons who have no job-related reasons for accessing such information.

**Agreed Upon Action 01 – System Security**

The Department of Billings and Collections has removed the users noted in the finding from the security tables. The appropriate levels of security access required by system programmers will be evaluated in a separate audit of change control to be conducted by the Municipal Auditing department in fiscal year 2005.

**Management Response 01 – System Security**

The noted changes have already been made to the security tables. Although Department of Technology ("DOT") employees assigned to support the City Wide Billing system have frequently changed, we have relied upon their informing us of the need for changes to the security tables. We will remind department managers and directors of their responsibility to inform Billings & Collections of changes to security access for their employees as provided in Administrative Procedure 3.8.

Billings & Collections made a request to DOT on November 12, 2002 for an automated workflow system for security requests to be handled through Lotus Notes and e-mail. This important project is still pending. We believe that this project will enhance efficiency and ease of use for departments to update their security requests.

**CONCLUSION**

Based on the results of our audit work, we conclude that the overall design and operation of the system of internal controls is satisfactory to reasonably ensure:

- City services and fees billed through city-wide billing are invoiced timely and related collection efforts are applied in a diligent and uniform manner.
- Payments received for services and fees billed through city-wide billing are deposited and credited to the proper accounts.
- Voids, adjustments, and write-offs applied to accounts on city-wide billing are in accordance with city policy and city code.
- Past due accounts on city-wide billing are assessed penalties and interest in accordance with city policy and city code.

We want to thank the Department of Billings and Collections and the Department of Technology for their cooperation and assistance during this audit.